

Working as a Freelancer in Portugal



Who fits into the category of this regime?

Workers who perform an activity that is not subject to an employment contract for the supply of services or for commercial or industrial purposes.

When Freelancers become fiscal residents of Portugal, they must begin their professional activity as self-employed persons and hence become subject to the respective tax and contribution regime (although under the special taxation regime for non-habitual residents of Portugal (NHR))

The income derived from the self-employed professional activity is considered Category B income.

It should be pointed out that the personal income tax rate tables applicable to the Autonomous Regions of Madeira and Azores are different from those applied to residents of mainland Portugal.

Initiating the Activity

- Must initiate the activity at the Tax Authority and Social Security Office
- Must identify the type of services that they will be supplying
- The VAT regime that will apply to them and the tax regime that they wish to opt for (simplified or organized accounting regime)



Accounting Regimes

The the organized accounting regime becomes obligatory when turnover exceeds €200,000 for two consecutive taxation periods, or when this occurs in one financial year in an amount that exceeds this value by more than 25%.

When self-employed persons begin their activity, they are automatically registered in the simplified regime, unless they opt to have their income assessed on the basis of organized accounting.

In the simplified regime, a standard percentage of working expenses is calculated in advance in relation to a particular type of professional activity and as such, the taxation only applies to a part of the gross annual income and not to all of it. For instance, if the coefficient applicable to the performed activity is 0.75, only 75% of gross income will be taxed, while the other 25% shall be considered expenses inherently related to the activity. For some activities, during the taxation period at the start of the activity, that coefficient is reduced by 50%, and during the following year that coefficient is reduced by 25%.

Under the organized accounting regime it is obligatory to appoint a certified accountant who shall be responsible for rigorously calculating net taxable income for a particular activity. This regime allows for deduction of most of the expenses incurred during the course of the activity, and it is generally a more advantageous regime when the amount of expenses surpasses the coefficient that applies to the professional activity that is performed.

Personal income Tax rates applicable to category B income

Income obtained in Portugal

- From general supply of services

Income obtained from supplying services shall be taxed in accordance with the progressive personal income tax table in effect under the general personal income tax regime.

- From supply of services considered part of high added value activities

Non-habitual residents in Portugal who perform high added value activities may benefit from a fixed rate of 20% applied to Category B net income, after applying the coefficient that is suited to the type of activity that is performed. This special taxation of income is applied if the NHR opts not to aggregate this income with the total income obtained.

In order to benefit from this fixed rate, the activity performed by the NHR must be included in the list of qualified activities considered to be of high added value, and the NHR must supply the proof required by the Tax Authority, depending on the activity in question.

Income obtained abroad

- From general supply of services

Income obtained abroad must be aggregated with other income in order to apply the general progressive personal income tax rates in effect. For certain professional activities, this coefficient is reduced by 50% during the first year of activity and by 25% during the second year of activity.

- From supply of services considered part of high added value activities

Non-habitual residents of Portugal who earn income abroad while supplying services that is considered to be of high added value may benefit from the exemption method, as long as they can be taxed in the country of origin in accordance with the double taxation convention signed between Portugal and that country, or they can be taxed in the other country, territory or region, in accordance with the OECD Model Tax Convention on Income and on Capital, in cases where there is no convention for eliminating double taxation that has been signed with Portugal, as long as the country, territory or region is not included in the Portuguese list of tax havens.

However, it should be pointed out that most conventions only provide for taxation in another country if the work is performed in that country or if the taxpayer proves that he has a stable establishment in that other country. Also worth keeping in mind is that although it may be exempt in Portugal, such income must be aggregated with other income in order to determine the rate applicable to any other income that is obtained and not subject to autonomous taxation. If the exemption method is not applied, the Category B income obtained abroad stemming from an activity that is considered to be of high added value shall be taxed in Portugal at a rate of 20%



Deduction of expenses

In the simplified regime, deductions made from income that results from applying the coefficients are partially contingent upon verifying expenses and charges that are in fact paid by the professional during the course of his activity and as such, it is important to always document such expenses through invoices/receipts.

Thus, taxable income is accrued by the positive difference between 15% of the gross income resulting from the supply of services to which these coefficients apply, and the sum of the following amounts, if they are duly recorded, inserted and validated in the Tax Authority Portal:

- Amounts that are proven to have been paid as obligatory contributions to social security schemes, related to the professional activity in question, in so far as they exceed 10% of gross income, when they have not been deducted for other purposes
- Expenses related to staff and charges related to remunerations, wages or salaries;
- Rent on real estate used in the business or professional activity, as stated in invoices and other documents;
- 11.5% of the taxable property value of the properties that are used in the business or professional activity, or for those properties that are used in hotel or local accommodation activities, 4% of the respective taxable property value of the property of which the taxpayer is the owner, usufructuary or superficiarius
- Other expenses incurred as a result of acquiring goods and supplying services related to the activity, namely expenses related to daily consumables, electricity, gas, transportation and communication, rents, legal fees, insurance, financial leasing, dues payable to professional orders and other organizations that represent professional categories that are relevant to the taxpayer, travel and accommodation of the taxpayer and his or her employees
- Imports or intra-Community acquisitions of goods and services related to the activity.

Under the **organized accounting regime**, all expenses and losses that are paid or incurred by the taxpayer in order to obtain or guarantee income from the activity, namely those related to acquiring any type of goods and services, advertising, interest paid on loans, foreign exchange differences, expenses pertaining to loans, debt collection, and employee remuneration are deductible.

Withholding Tax

Withholding tax paid at the source against personal income tax is obligatory by payer entities at the time of payment or when made available to the respective subjects

In the case of non-habitual residents who on Portuguese territory supply services that are considered high added value activities, the withholding rate is 20%. In all other cases, the withholding tax is applied in accordance with the activity that is performed (generally 25% or 11.5%) NOTE: Withholding tax may be dispensed with if annual income fails to attain an amount equal to or greater than €14,500.

Value added tax

Self-employed persons who undertake a commercial activity or provide services that are subject to VAT on Portuguese territory may be exempt from paying this tax, provided that the following occurs cumulatively:

- do not have organized accounting and are not obliged to have it;
- do not perform operations pertaining to import, export, intra-Community transfers of goods or intra-Community supply of services;
- They have not attained a turnover totalling €14,500 (€15,000 from 2025 onwards).

Otherwise, the taxpayer shall be included in the quarterly regime and must pay VAT when invoices are issued



Social Security Contributions

Self-employed persons are exempt from making social security contributions during their first year of activity.

After, they are required to contribute a minimum of €20 up until the time they submit their first quarterly declaration indicating the total income resulting from the supply of services.

After the first quarterly declaration is submitted, the contribution made for social security shall be calculated on the basis of the income declared in said declaration.

Simplified Regime:

Contribute the minimum amount of €20 up until the time they submit their first quarterly declaration. After their first quarterly declaration is submitted, the contribution shall be calculated on the basis of the income declared in the declaration.

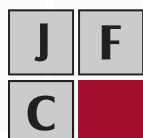
The contribution rate of 21.4% applies to the tax base, corresponding to 1/3 of the relevant income (= 70% of quarterly income). The amount of the contribution may be adjusted at a later date by an increase of 25% or a decrease of 25%, always in 5% intervals at a time

Organized accounting regime:

After the 1st year, taxable profit is divided by 12 months, and if it is lower than 1.5 times the IAS then the tax base shall be set at 1.5 times the IAS.

Before the end of the fiscal year, they must contribute via quarterly declarations until such time the Social Security Office has established their tax base. The same holds true for self-employed persons who transfer from the simplified regime to the organized accounting regime or who are obliged to have organized accounting.

No matter how high the income, the highest tax base shall never be more than 12 times the IAS.



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